

## Message Text

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44

ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

INRE-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 EB-07

FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05

PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01 TRSE-00

PRS-01 SP-02 FEAE-00 OMB-01 ERDA-05 FPC-01 PM-04

SAM-01 OES-06 ACDA-07 /118 W

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FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC IMMEDIATE 9500

INFO EC COLLECTIVE 149

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E.O. 11652: N/A

TAGS: EEC, ECIN, ETRD, ENRG

SUBJ: EUROPEAN COUNCIL NOV 29-30: ECONOMIC AND MONETARY

SITUATION

REF: A) EC BRUSSELS 11607; B) THE HAGUE 6606

1. SUMMARY: THE EUROPEAN COUNCIL'S DISCUSSION OF THE ECONOMIC AND MONETARY SITUATION WAS BASED UPON A SOMBER REPORT FROM THE EC COMMISSION. THE EC HEADS OF GOVERNMENT AGREED ON THE NECESSITY OF COMMUNITY ACTION TO DEAL WITH THE CURRENT CRISIS.  
END SUMMARY.

2. ECONOMIC AND MONETARY SITUATION: THE HEADS OF GOVERNMENT RECEIVED AND DISCUSSED A COMMUNICATION FROM THE EC COMMISSION ON THE ECONOMIC SITUATION IN THE COMMUNITY. THE REPORT NOTES  
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THAT THERE HAS BEEN NO FURTHER IMPROVEMENT IN THE ECONOMIC

SITUATION IN MOST OF THE EC MEMBER STATES DURING THE LAST FEW MONTHS, STRESSING THE SLACK INCREASE IN CONSUMER DEMAND, THE WEAKNESS OF INVESTMENT DEMAND, THE LEVELLING OFF OF INDUSTRIAL PRODUCTION, DETERIORATION OF THE BALANCE OF PAYMENTS DEFICIT, RENEWED ACCELERATION OF INFLATION RATES, AND ONLY A SLIGHT DROP IN CYCLICAL UNEMPLOYMENT. IT NOTES FURTHER THAT THE SLOWDOWN IN RECOVERY HAS AFFECTED ALMOST ALL INDUSTRIAL COUNTRIES AND HAS LED TO DECELERATED GROWTH OF WORLD TRADE VOLUME. THE REPORT WARNS THAT AN OIL PRICE RISE WOULD CAUSE FURTHER DETERIORATION IN THE WORLD ECONOMIC SITUATION AND SERIOUSLY ENDANGER RECOVERY. IT NOTES THE GROWING BELIEF AMONG EC MEMBER STATES THAT ONLY A GREATER AND MORE UNIFORM DEGREE OF PRICE STABILITY CAN ENSURE SUSTAINED GROWTH, REDUCED UNEMPLOYMENT AND MORE STABLE INTERNATIONAL MONETARY RELATIONS.

3. THE REPORT CALLS FOR GREATER SOLIDARITY AMONG THE MEMBER STATES AS THE ONLY HOPE FOR COUNTERING CURRENT TENDENCIES TOWARD DIVERSIONS IN PRICES, COSTS, AND BALANCES OF PAYMENTS, NOTING THAT EXCHANGE RATE FLUCTUATIONS ARE ONCE AGAIN MAKING IT MORE DIFFICULT FOR SOME MEMBER STATES THAN FOR OTHERS TO CONTAIN INFLATION.

4. THE REPORT ASSERTS THAT THE 1977 ECONOMIC OBJECTIVES APPROVED NOV 22 BY THE EC FINANCE COUNCIL WILL BE ATTAINABLE ONLY IF WORLD TRADE CONTINUES TO EXPAND, WITHOUT PROTECTIONIST MEASURES; IF ECONOMIC POLICIES ARE COORDINATED AT THE EC AND INTERNATIONAL LEVELS; IF WAGE AGREEMENTS STAY WITHIN THE BOUNDS OF THE POSSIBLE; AND IF THERE IS NO INCREASE OR ONLY A MODERATE INCREASE IN OIL PRICES.

5. THE REPORT CONCLUDES THAT SHORT TERM ECONOMIC POLICIES SHOULD CONTINUE TO BE DIFFERENTIATED ACCORDING TO INDIVIDUAL MEMBER STATE SITUATIONS. THE REPORT SUGGESTS THAT THE DEFICIT COUNTRIES SHOULD AIM TO REDUCE BALANCE OF PAYMENTS DEFICIENCIES AND INFLATION RATES AND TO CUT THE SPIRAL OF EXCHANGE RATE DETERIORATION THROUGH ACTION IN THE MONETARY, FISCAL AND INCOMES SECTORS; AND IT CALLS FOR ADOPTION OF REFLATIONARY POLICIES BY THE SURPLUS COUNTRIES IN ORDER TO STIMULATE DEMAND FOR DEFICIT COUNTRY PRODUCTS.

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6. VERY FEW SPECIFIC POINTS MERGED FROM THE DISCUSSION OF THE COMMISSIONS REPORT AND OF THE ECONOMIC AND MONETARY SITUATION IN GENERAL. UK PRIMIN CALLAGHAN TOLD THE PRESS THAT THE TALKS HAD BEEN STRONGER ON ANALYSIS THAN ON ANSWERS BUT STRESSED THE NEED TO WORK TOGETHER TO TACKLE UNEMPLOYMENT AND INFLATION. IN RESPONSE TO QUESTIONS HE SAID THAT HE WOULD BE HAPPY TO SEE THE SUGGESTIONS FOR MONETARY

CONVERGENCE AND EXCHANGE RATE STABILITY PUT FORWARD BY DUTCH  
FINMIN DUISENBERG CARRIEDOUT BUT THAT HE DID NOT  
FEEL THE PROSPECTS FOR THEIR SUCCESS WRE ANY GREATER NOW THAN  
IN THE PAST. HE SAID THERE HAD BEEN A GENRAL CONSENSUS AMONG  
THE HEADS OF GOVERNMENT THAT A RISE IN OIL RPICES WOULD HAVE  
AN UNFAVORABLE IMPACT ON THE ECONOMICS OF THE INDUSTRIAIZED  
WORLD BUT THAT THERE HAD NOT BEEN ANY DECISION TO MAKE A  
COLLECTIVE REPRESENTATION TO OPEC.

7. AT SEPARATE PRESS CONFERENCES, BELGIAN PRIMIN  
TINDEMANS AND DUTCH PRIMIN DEN UYL ALSO STRESSED THAT  
THE HEADS OF GOVERNMENT WERE AGREED ON THE NEED FOR FORCEFUL  
COMMUNITY ACTION IN THE CONOMIC AND MONETARY SECTORS TO DEAL  
WITH THE CURENT CRISIS. DEN UYL STRESSED THAT THE FIRST  
AGREED PRIORITY WAS ON SOLIDARITY WITHIN THE C, WITH  
PARTICULAR ATTENTON TO BE PAID TO THE BRITISH AND ITALIAN  
SITUATIONS. IN A RELATED VEIN HE ANNOUNCED THA THE COM-  
MISSION HAS BEEN INSTRUCTED TO PREPARE A STUDY ON MEANS OF  
REDUCING ENERGY CONSUMPTION.

8. AVIALABLE INFORMATION ON POSITIONS TAKEN BY THE FRG DURING  
THE DISCUSSIONS IS LARGELY SECONDHAND. DANISH PRIMIN  
JORGENSEN INFORMED THE PRESS ON MONDAY THAT SCHMIDT HAD WARNED  
THE FRG COULD NOT BE EXPECTED TO PLUG DEFICIT GAPS FOR THE  
WEAKER COUNTRIES. ACCORDING TO FRENCH PRESS BRIEFINGS, SCHMIDT  
ALSO STATED THAT THE FRG WOULD NOT TAKE OUTSIDE INSTRUCTIONS  
TO REFLATE ITS ECONOMOY. IRISH FONMIN FITZGERALD TOLD  
THE PRESS THAT THE FRG HAD STRESSED DURING THE MEETING  
THAT THE SCALE OF SURPLUSES IN SURPLUS COUNTRIES IS NOT VERY  
LARGE.  
MCCLOSKEY

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